

TOWNSHIP OF ALOHA
CHEBOYGAN COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name ALOHA TOWNSHIP	County CHEBOYGAN
Fiscal Year End MARCH 31, 2006	Opinion Date JUNE 16, 2006	Date Audit Report Submitted to State JULY 14, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

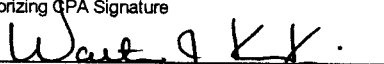
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

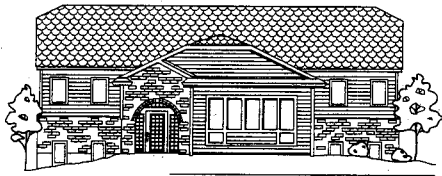
I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) KESKINE, COOK, MILLER & ALEXANDER		Telephone Number (989) 732-7515	
Street Address 100 WEST FIRST STREET		City GAYLORD	State MI
		Zip 49735	
Authorizing CPA Signature 	Printed Name WALT KESKINE		License Number 1101008795

Township of Aloha

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Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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Independent Auditor's Report

June 16, 2006

To the Township Board
Aloha Township
Cheboygan County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Aloha, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Aloha as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The management's discussion and analysis on pages 2-4 and budgetary comparison information on pages 21-24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KK Cook Miller & Alexander LLP
KESKINE, COOK, MILLER & ALEXANDER, LLP

ALOHA TOWNSHIP
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Cheboygan, Mi 49721
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Aloha Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements that immediately follow this section.

Financial Analysis of the Township as a Whole

Our financial status slightly declined over the last year.

Overall revenues were approximately \$233,000, of which approximately \$13,000 is classified as program revenues, and approximately \$220,000 is classified as general revenues (consisting primarily of state-shared revenues and property taxes). Total revenues have increased slightly over the last two years due to increasing property tax revenues as a result increasing taxable values of properties within the Township, despite annual decreases in state shared revenues. Overall expenses totaled approximately \$251,000. The activities of the Township have remained the same.

Total assets total approximately \$385,000, which consists of approximately \$19,000 in capital assets, approximately \$354,000 in cash and investments, and approximately \$12,000 in property tax receivables.

Net assets as of March 31, 2006 total approximately \$384,000 which represents an decrease of approximately \$18,000 from the year ended March 31, 2005. Approximately \$19,000 of the total net assets is invested in capital assets with approximately \$230,000 being unrestricted.

The following table shows in condensed format, the net assets as of March 31, 2006. Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	<u>Governmental Activities</u>
Assets	
Current assets	\$ 366,000
Noncurrent assets	19,000
Total assets	<u>385,000</u>
 Current Liabilities	 <u>1,000</u>
 Net Assets	
Invested in capital assets - net of related debt	19,000
Restricted	134,000
Unrestricted	231,000
Total net assets	<u><u>\$ 384,000</u></u>

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities. The remaining statements are fund financial statements, which focus on the detailed activities of the general fund (the only fund of the Township).

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Government-Wide Statements

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider tax base changes and other various economic conditions.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following funds:

General Fund: This fund is used to record all activities of the Township not required to be recorded in a separate fund. The major source of revenue for the general fund is from the Township tax base and revenue sharing from the State of Michigan. The major expenses for the year include the general operating activities of the Township.

Road Fund: This fund is used to account for the repairs and maintenance of the Township's roads. Revenues consist primarily of a voter approved road millage.

Fire Fund: This fund is used to account for the collection of a voter approved fire millage and payments to the Alverno Fire Department which covers all of Aloha Township.

Capital Asset and Long-Term Debt Activity

For the year ended March 31, 2006, the Township purchased no capital assets. Depreciation expense for the year totaled \$683. Total capital assets total approximately \$25,000 of which approximately \$6,000 has previously been depreciated.

The Township has no outstanding long-term debt or capital leases.

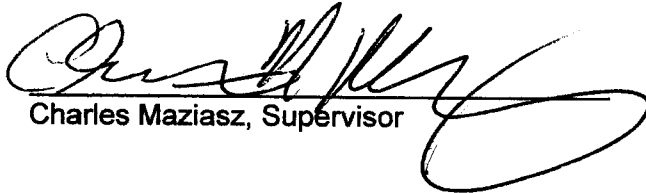
Known Factors affecting Future Operations

The Township is planning road repairs for Hiawatha Drive for tar and chip repair at approximately \$45,000 and new construction of Long Lake Road estimated at approximately \$300,000. The Long Lake Road project is anticipated to run through approximately 2009.

The Township has entered into a contract with EnviroScience, Inc for the release of 14,000 weevil eggs and larvae into Long Lake in an attempt to eradicate the invasion of Eurasian Water Milfoil. Total costs are anticipated at approximately \$17,000.

Contacting Township Management

This financial report is designed to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report, please contact the Township Clerk at the following address: Barb Hall, Aloha Township Clerk, 5104 Paradise Trail, Cheboygan, MI 49721.



Charles Maziasz, Supervisor

**TOWNSHIP OF ALOHA
STATEMENT OF NET ASSETS
MARCH 31, 2006**

	Primary Government - Governmental Activities
<hr/>	
Assets	
Cash	\$ 353,534
Receivables	12,369
Capital assets:	
Nondepreciable capital assets	5,000
Depreciable capital assets - net	13,898
	<hr/>
Total assets	384,801
Liabilities	
Accounts payable	1,161
	<hr/>
Net Assets	
Invested in capital assets	18,898
Restricted - Road improvements	129,861
Restricted - Fire protection	4,388
Unrestricted	230,493
	<hr/>
Total net assets	\$ 383,640
	<hr/> <hr/>

See accompanying notes to financial statements

TOWNSHIP OF ALOHA
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

Functions / Programs	P r o g r a m R e v e n u e				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
General government	\$ 102,542	\$ 12,800	\$ -	\$ -	(89,742)
Public Safety	42,773	-	-	-	(42,773)
Public Works	91,353	-	-	-	(91,353)
Health and welfare	14,620	-	-	-	(14,620)
Total primary government	\$ 251,288	\$ 12,800	\$ -	\$ -	(238,488)
General Revenues:					
Property taxes					126,466
State shared revenue (not restricted to a specific purpose)					70,308
Interest					6,379
Contributions from other governments					7,950
Miscellaneous					9,091
Total general revenue					220,194
Change in net assets					(18,294)
Net Assets - Beginning of year					365,346
Net Assets - End of year					\$ 383,640

See accompanying notes to financial statements

ALOHA TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006

	<u>M a j o r F u n d s</u>			<u>Non-major Fund</u>	
	<u>General</u>	<u>Fire</u>	<u>Roads</u>	<u>Cemetery</u>	<u>Total</u>
Assets					
Cash	\$ 224,901	\$ 403	\$ 125,869	\$ 2,361	\$ 353,534
Receivables	4,399	3,985	3,985	-	12,369
Total assets	<u>\$ 229,300</u>	<u>\$ 4,388</u>	<u>\$ 129,854</u>	<u>\$ 2,361</u>	<u>\$ 365,903</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ 1,161	\$ -	\$ -	\$ -	\$ 1,161
Fund balances:					
Undesignated	<u>228,139</u>	<u>4,388</u>	<u>129,854</u>	<u>2,361</u>	<u>364,742</u>
Total liabilities and fund balances	<u>\$ 229,300</u>	<u>\$ 4,388</u>	<u>\$ 129,854</u>	<u>\$ 2,361</u>	<u>\$ 365,903</u>

See accompanying notes to financial statements

**TOWNSHIP OF ALOHA
RECONCILIATION OF THE GOVERNMENTAL FUND'S BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006**

Total Fund Balance - Governmental Funds (per balance sheet - page 7)	364,742
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Amounts reported for governmental activities in the Statement of Net Assets (page 5) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not used in the funds	18,898
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Total Net Assets - Governmental Activities (per Statement of Net Assets - page 5)	<u>383,640</u>
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See accompanying notes to financial statements

TOWNSHIP OF ALOHA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2006

	<u>M a j o r F u n d s</u>			<u>Non-major Fund</u>	
	<u>General</u>	<u>Fire</u>	<u>Roads</u>	<u>Cemetery</u>	<u>Total</u>
Revenues					
Property tax revenue	\$ 39,983	\$ 43,241	\$ 43,242	\$ -	\$ 126,466
Property tax administration fee	10,197	-	-	-	10,197
State shared revenue	70,308	-	-	-	70,308
Interest income	3,628	41	2,630	80	6,379
Other revenue	7,429	-	-	4,265	11,694
Total revenue	131,545	43,282	45,872	4,345	225,044
Expenditures					
Current :					
General government	88,963	-	-	12,896	101,859
Public works	5,903	-	85,450	-	91,353
Public safety	3,522	39,251	-	-	42,773
Health and welfare	14,620	-	-	-	14,620
Total expenditures	113,008	39,251	85,450	12,896	250,605
Excess (deficiency) of revenue over (under) expenditures	18,537	4,031	(39,578)	(8,551)	(25,561)
Other financing sources (uses)					
Contributions from other Governments	-	-	-	7,950	7,950
Transfer from other funds	(2,650)	-	-	2,650	-
Total other financing sources (uses)	(2,650)	-	-	10,600	7,950
Excess (deficiency) of revenue and other sources over (under) expenditures and other uses	15,887	4,031	(39,578)	2,049	(17,611)
Fund Balance - Beginning of Year	212,252	357	169,432	312	(382,353)
Fund Balance - End of Year	\$ 228,139	\$ 4,388	\$ 129,854	\$ 2,361	\$ 364,742

See accompanying notes to financial statements

**TOWNSHIP OF ALOHA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006**

Net Change in Fund Balance - Total Governmental Funds - Page 9 (17,611)

Amounts reported for governmental activities in the Statement of
Activities (page 6) are different because:

Depreciation expense is recorded in the government-wide
statements but not in the fund financial statements (683)

**Change in Net Assets of Governmental Activities (per Statement of
Net Assets - page 6)** (18,294)

See accompanying notes to financial statements

ALOHA TOWNSHIP
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
MARCH 31, 2006

	Assets	
Cash		\$ 3,964
		<u> </u>
	Liabilities	
Due to other governments		\$ 3,964
		<u> </u>

See accompanying notes to financial statements

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 1: ENTITY

The Township of Aloha is a general law township of the State of Michigan, located in Cheboygan County, Michigan. The Township of Aloha operates under a five-member elected Board. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Aloha Township.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of Aloha Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities for the year.

The accounting policies of Aloha Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2005, Aloha Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental funds:

General Fund – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state grants, interest, and other intergovernmental revenues.

Fire Fund – This fund is used to account for the Township's fire operating activity.

Road Fund – This fund is used to account for the Township's voter approved road property taxes collected and road improvements and maintenance performed.

The Township reports, in total, the following non-major fund: Cemetery.

TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Fiduciary Fund

Fiduciary funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township maintains a tax collection fund in this category.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Governmental Fund Financial Statements (Continued)

The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property Taxes

The property tax calendar is as follows:

Levy Dates	July 1, 2005	(summer collection)
	December 1, 2005	(winter collection)
Due Dates	September 15, 2005	(summer collection)
	February 15, 2006	(winter collection)

The real property tax rolls were turned over to the County of Cheboygan on March 1, 2006. Collection of personal property taxes remains the responsibility of the Township. Amounts collected after the due date are assessed interest and / or penalty provisions. A county revolving fund normally pays the balance of the Township's real property tax levy by May 31. The entire Township levy is recorded as revenue in the current year.

The tax rates for the year ended March 31, 2006, were as follows:

<u>Purpose</u>	<u>Rate</u>
General	0.8319 / \$1,000
Fire	0.9059 / \$1,000
Road	0.9059 / \$1,000

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The following ranges are proposed as guidelines in estimating useful lives for asset reporting:

Building improvements	25 – 40
Land improvements	10 – 20
Machinery & equipment	5 – 10
Vehicles	10 – 15

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$5,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Otherwise, the cost should be expensed as repair and maintenance.

BUDGETS

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township for budgetary funds were adopted on a fund level. Budgets are normally formulated during January and February of each year and a budget hearing is held in March. The Board normally adopts the budget just prior to April 1. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are the final amended amounts. Budgets close on March 31st each year.

For the fiscal year ended March 31, 2006, the Township experienced no over expenditures.

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated one bank for the deposit of its funds. The Investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

Warner Township's deposits and investment policies are in accordance with statutory authority.

As of March 31, 2006, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 353,534</u>	<u>\$ 3,964</u>	<u>\$ 357,498</u>

The Township's cash and investments consist entirely of bank deposits as follows:

Bank deposits - checking and savings accounts	\$ 261,569
Certificates of deposit	<u>95,929</u>
Total	<u>\$ 357,498</u>

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Deposits

The bank balance of the Township's deposits is \$357,498 of which \$200,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level are used as depositories.

NOTE 4: CAPITAL ASSETS

Capital asset activity of the Township's activities were as follows:

Governmental Activities	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets not being depreciated - Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Buildings	14,825	-	-	14,825
Furniture and fixtures	5,163	-	-	5,163
Subtotal	19,988	-	-	19,988
Accumulated depreciation:				
Buildings	3,686	339	-	4,025
Furniture and fixtures	1,721	344	-	2,065
Subtotal	5,407	683	-	6,090
Net capital assets being depreciated	14,581	(683)	-	13,898
Net capital assets	<u>\$ 19,581</u>	<u>\$ (683)</u>	<u>\$ -</u>	<u>\$ 18,898</u>

Depreciation expense was charged entirely to the general government activity.

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 5: FUND BALANCE / NET ASSETS

CALCULATION OF BEGINNING NET ASSETS

The Township adopted GASB Statement No. 34 effective April 1, 2005. The following represents the reconciliation of the Townships fund balance as of April 1, 2005, to its beginning net assets balance, as presented in the statement of Activities, for the year ended March 31, 2006:

Total Fund Balance, Governmental Funds, April 1, 2005	\$ 345,765
Record capital assets	24,988
Record accumulated depreciation	(5,407)
Beginning Net Assets, Governmental Funds, April 1, 2005	<u>\$ 365,346</u>

NOTE 6: PENSION PLAN

The Township of Aloha contributes to a pension plan which is a defined contribution pension plan administered by the Manulife Financial, Inc.

A defined contribution pension plan provides pension benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All members of the elected Township Board are eligible to participate in the plan. Contributions made by the Township and employees vest immediately. The participant will receive benefits upon termination of employment with the Township.

The plan requires the Township to contribute 15% of the eligible employee's wages. During the year the Township contributed \$6,338 to the plan, which was the amount necessary to meet the Township's current year obligation as well as account charges to the plan provider.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**TOWNSHIP OF ALOHA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2006**

NOTE 7: ACCOUNTING AND REPORTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The Township of Aloha has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement this Statement as of April 1, 2005. Certain significant changes in the statement include the following:

- A management’s discussion and analysis (MD&A) section providing an analysis of the Township’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township’s activities.
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$19,000 that would previously have been reported in the General Fixed Asset Account Group.
- Capital assets at April 1, 2005 previously reported in the General Fixed Asset Account Group have been adjusted by approximately \$160,004 to reflect the historical cost of the Township’s capital assets at that date.

TOWNSHIP OF ALOHA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
Revenues				
Property tax revenue	\$ 38,500	\$ 38,500	\$ 39,983	\$ (1,483)
Property tax administration fee	8,000	8,000	10,197	(2,197)
State shared revenue	65,000	65,000	70,308	(5,308)
Interest income	1,500	1,500	3,628	(2,128)
Other revenue	7,690	7,690	7,429	261
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	120,690	120,690	131,545	(10,855)
Expenditures				
General government:				
Township Board	25,500	25,500	15,658	9,842
Supervisor	13,122	13,122	13,290	(168)
Elections	500	500	1,277	(777)
Assessor	10,200	10,200	9,754	446
Clerk	13,100	13,100	13,602	(502)
Board of Review	3,800	3,800	3,536	264
Treasurer	17,850	17,850	19,015	(1,165)
Township Hall	5,000	5,000	4,271	729
Insurance	5,000	5,000	4,176	824
Professional Fees	4,500	4,500	3,384	1,116
Liquor control	900	900	1,000	(100)
	<hr/>	<hr/>	<hr/>	<hr/>
Total general government	99,472	99,472	88,963	10,509
Public works:				
Street repairs	20,000	20,000	4,410	15,590
Street lights	1,500	1,500	1,493	7
	<hr/>	<hr/>	<hr/>	<hr/>
Total public works	21,500	21,500	5,903	15,597
Public safety:				
Fire hydrant repair	-	-	500	(500)
Fire building repair	3,000	3,000	3,022	(22)
	<hr/>	<hr/>	<hr/>	<hr/>
Total public safety	3,000	3,000	3,522	(522)

TOWNSHIP OF ALOHA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2006

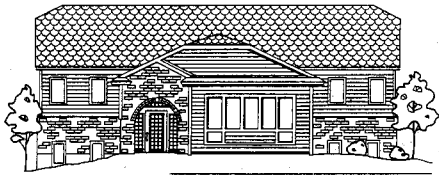
	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
Health and welfare:				
Garbage pick-up	17,000	17,000	13,920	3,080
Cheb Co Humane Society	700	700	700	-
Total health and welfare	<u>17,700</u>	<u>17,700</u>	<u>14,620</u>	<u>3,080</u>
Total expenditures	<u>141,672</u>	<u>141,672</u>	<u>113,008</u>	<u>28,664</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(20,982)</u>	<u>(20,982)</u>	<u>18,537</u>	<u>(39,519)</u>
Other financing uses:				
Transfer to cemetery	-	-	(2,650)	2,650
Excess (deficiency) of revenue over (under) expenditures and other uses	<u>(20,982)</u>	<u>(20,982)</u>	<u>15,887</u>	<u>(36,869)</u>
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>212,252</u>	<u>(212,252)</u>
Fund Balance - End of Year	<u><u>\$ (20,982)</u></u>	<u><u>\$ (20,982)</u></u>	<u><u>\$ 228,139</u></u>	<u><u>\$ (249,121)</u></u>

**TOWNSHIP OF ALOHA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FIRE FUND
YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
Revenues				
Property tax revenue	\$ 36,500	\$ 36,500	\$ 43,241	\$ (6,741)
Interest	50	50	41	9
	<u>36,550</u>	<u>36,550</u>	<u>43,282</u>	<u>(6,732)</u>
Expenditures				
Fire contract	36,550	36,550	39,251	(2,701)
	<u>36,550</u>	<u>36,550</u>	<u>39,251</u>	<u>(2,701)</u>
Deficiency of revenue under expenditures	-	-	4,031	(4,031)
Fund Balance - Beginning of Year	<u>357</u>	<u>357</u>	<u>357</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 357</u>	<u>\$ 357</u>	<u>\$ 4,388</u>	<u>\$ (4,031)</u>

**TOWNSHIP OF ALOHA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET TO ACTUAL
ROAD FUND
YEAR ENDED MARCH 31, 2006**

	Original Budget	Final Amended Budget	Actual	Variance From Final Amended Budget
Revenues				
Property tax revenue	\$ 36,500	\$ 36,500	\$ 43,242	\$ (6,742)
Interest income	1,000	1,000	2,630	(1,630)
Total revenue	37,500	37,500	45,872	(8,372)
Expenditures				
Road projects	122,000	122,000	85,450	36,550
Deficiency of revenue under expenditures	(84,500)	(84,500)	(39,578)	(44,922)
Fund Balance - Beginning of Year	169,432	169,432	169,432	-
Fund Balance - End of Year	<u>\$ 84,932</u>	<u>\$ 84,932</u>	<u>\$ 129,854</u>	<u>\$ (44,922)</u>



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

June 16, 2006

To the Township Board
Township of Aloha, Cheboygan County

We have audited the financial statements of Aloha Township for the year ended March 31, 2006, and have issued our report thereon dated June 16, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 6, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Aloha Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Aloha Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

The financial records of Aloha Township were well organized and we are happy to report that there were no difficulties in performing the audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of Aloha Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comments and recommendations should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- Currently, the Treasurer provides a report to the Board on a monthly basis that lists the cash balances in all accounts; however, nobody else is currently reviewing the original bank statements. The Treasurer is in a position to misappropriate Township funds and conceal any improprieties by altering the reports that are provided to the Board. We recommend that another member of the Board review the Treasurer's bank reconciliations on a monthly basis ensuring that they are prepared timely and accurately.
- The Township is currently using Quicken as its general ledger software. Although Quicken is a good program to print checks from, it does not provide the Township with a self-balancing general ledger program that tracks all assets, liabilities, fund balances, revenues, and expenditures by fund and comply with the State of Michigan chart of accounts.

Other programs, such as Quickbooks or Peachtree, could provide the Township with balancing general ledger software that complies with the State of Michigan uniform chart of accounts and can be easily programmed to provide the Board with additional schedules that may be beneficial to the overall management of the Township. These newer programs are reasonably priced and are successfully used by many other local Township's of a similar size to Aloha. We recommend that the Township investigate various other general ledger software currently available on the market and update to a software package that meets the needs of the Township.

We have various individuals who provide set-up and consulting services for Peachtree and Quickbooks software and would be available to assist Aloha Township should they decide to upgrade to either of these software packages.

We hope that you find the above comments and recommendations useful. We are available to discuss these items in further detail with you at your convenience.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Keskin, Cook, Miller & Alexander LLP

Adjusting Journal Entries
Aloha Township
December 31, 2005

AJE No.	Account Description	W/P Ref	Account Number	Debits	Credits
1	Property tax receivable	R-1	101-000-019	3,659.06	
1	Property taxes		101-000-403		3,659.06
1	Taxes receivable		202-000-019	3,984.63	
1	Property tax revenue		202-000-402		3,984.63
1	Taxes receivable		206-000-019	3,984.63	
1	Property tax revenue		206-000-402		3,984.63
1	PTAF receivable		101-000-020	739.65	
1	PTAF		101-000-447		739.65
To record property taxes receivable for delinquent real property taxes in General, Roads, and Fire Funds					
3	Garbage pick-up	X-1	101-101-800	1,160.00	
3	Accounts payable		101-000-201		1,160.00
To record accounts payable for garbage contract - due to timing of payments, only 11 months of expense was recorded during the year					
4	Land	K-1	900-000-120	5,000.00	
4	Buildings		900-000-121	14,825.00	
4	Furniture and fixtures		900-000-122	5,163.00	
4	Accumulated depreciation		900-000-125		5,407.00
4	Net Assets		900-000-390		19,581.00
4	Depreciation expense - general gove		900-000-950	683.00	
4	Accumulated depreciation		900-000-125		683.00
GASB 34 entry: To record capital assets for beginning of year and current year activity; To eliminate due to / from's between Govt funds & T&A					
Totals				<u>39,198.97</u>	<u>39,198.97</u>